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# **Ideas for Budget and Policy Reform: Reviewing the Debate on Cohesion Policy 2014+**

## **EoRPA Paper 08/4**

*John Bachtler, Carlos Mendez and Fiona Wislade.*

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## **Preface**

This paper reviews the current state of the debate on EU budget and policy reform, focusing in particular on the future of Cohesion policy after 2013. The paper was prepared by the European Policies Research Centre (EPRC) under the aegis of EoRPA (European Regional Policy Research Consortium), which is a grouping of national government authorities from countries across Europe. The Consortium provides sponsorship for the EPRC to undertake regular monitoring and comparative analysis of the regional policies of European countries and the inter-relationships with EU Cohesion and Competition policies. EoRPA members currently comprise the following partners:

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- Bundeskanzleramt (Federal Chancellery), Vienna

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- Ministerium für Wirtschaft, Technologie und Arbeit, Freistaat Thüringen, Erfurt

### **Italy**

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- Ministerie van Economische Zaken (Ministry of Economic Affairs), The Hague

### **Norway**

- Kommunal-Og Regionaldepartementet (Ministry of Local Government and Regional Development), Oslo

### **Poland**

- Ministerstwo Rozwoju Regionalnego (Ministry of Regional Development), Warsaw

### **Sweden**

- Näringsdepartementet (Ministry of Industry, Employment and Communications), Stockholm

### **United Kingdom**

- Department of Business, Enterprise and Regulatory Reform, London
- The Scottish Government, Enterprise, Transport and Lifelong Learning Department, Glasgow

The research for this paper was undertaken by EPRC in consultation with EoRPA partners. It involved a programme of desk research and fieldwork visits among national and regional authorities in sponsoring countries and European institutions during Spring/Summer 2008.

The paper has been drafted by Professor John Bachtler, Carlos Méndez and Fiona Wishlade. It draws on country-specific research contributed by the following research team:

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- Dr Katja Mirwaldt and Frederike Gross (Luxembourg)
- Laura Polverari (Italy)
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## **European Policies Research Centre**

**March 2009**

## **Disclaimer**

It should be noted that the content and conclusions of this paper do not necessarily represent the views of individual members of the EoRPA Consortium.

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# **Ideas for Budget and Policy Reform: Reviewing the Debate on Cohesion Policy 2014+**

## **EXECUTIVE SUMMARY**

Over the past year, the debate on the EU budget - and the longer term development of the European Union - has come to life. This paper reviews the evolution of the debate, with respect to the two consultations on the budget and specifically on Cohesion policy.

### **The Budget Review**

This review was launched by the Commission President in September 2007 with a consultation paper described as a 'unique opportunity'. The review has prompted extensive academic and policy debate on the future political and policy direction of the EU.

Reviewing the main research contributions, the primary conclusion is the need for change. There is general recognition that the structure of the budget does not reflect the EU's political objectives and policy priorities. In broad terms, the consultation indicates a need for increased spending on the environment, energy and competitiveness, research and knowledge - as well as greater cross-policy coherence in meeting EU goals in these areas - and a reduction or reorientation of CAP spending towards rural development and other contemporary policy objectives.

On the revenue side of the budget, the budget debate has promoted extensive discussion of the own resources of the EU. There is considerable support for some kind of EU tax, but others are strongly opposed on theoretical, empirical and political grounds. While there is a widespread view that correction mechanisms should be avoided, it is also recognised that some method for dealing with Member State concerns on net balances is required.

The budget review has prompted contributions on how to manage change to the budget and EU policies. Many contributors place emphasis on better independent assessment and understanding of the efficiency and effectiveness of policies (notably impact) as part of a more structured and systematic approach to making expenditure decisions.

The final issue considered by academic commentators are scenarios for change, focusing on how things might develop in practice. Although many commentators have stressed the importance of 'going beyond the status quo', it has been noted that radical change is unlikely. Several scenarios provide some insight into the possible financial parameters for the proposals made in the budget review.

Turning to Member State perspectives, there are fundamental differences between Member States on the size of the EU budget. A range of principles have been put forward as a basis for future policy priorities - added value, solidarity, proportionality, subsidiarity. A similar set of principles is suggested for management of the budget as a whole - equity, transparency, efficiency/effectiveness and simplicity. The submissions from Member States suggest they see little need for more flexibility in the EU budget. They are also keen to avoid making significant changes to the 2007-13 financial framework.



There is universal support among Member States for decisions on future EU policies to be based on their European added value. There also appears to be considerable consensus on policy priorities. Every Member State supports more emphasis on research and innovation, as well as EU-level action on environment and energy issues. Member States largely agree on the importance of the EU's external and internal policies in promoting political stability in neighbouring countries, international development and addressing terrorism, transnational crime, and migration. However, several are concerned about the implications of these priorities for the EU budget.

Finally, there is little consensus on how the EU should generate revenue. On the one hand, there is some support for an EU tax, but other countries are ambivalent. A key principle for many Member States is that there should be 'fairness' in their budget contributions. Most are opposed to special corrections, although some acknowledge that a balancing mechanism will be necessary.

### **The Cohesion policy reform debate**

The debate on the future of Cohesion policy post 2013 was formally launched with the publication of the European Commission's Fourth Report on Economic and Social Cohesion. With respect to the Commission's perspective on the future of policy, speeches by the Commissioner highlight several issues. First, regional development in Europe and the role of Cohesion policy must be seen within the context of global challenges. Second, Cohesion policy must be more focused on maximising its impact on EU competitiveness, growth and jobs. Third, changes are required to the governance of Cohesion policy in order to increase the focus on performance, to optimise the roles of different actors and levels, and to improve the coordination of the funds.

Just over half of the Member States made a formal submission to the consultation, and others have sketched out their views in other fora. Most have welcomed the launch of the debate on the future of Cohesion policy, with some stressing that it must be seen within the context of the broader EU budget review debate.

**Policy rationale.** Solidarity is widely held up as a fundamental EU value which is being suitably applied through Cohesion policy and that this expression of solidarity should not be put into question in the future. There is broad agreement that Cohesion policy has made a positive contribution to the reduction of disparities across EU Member States and regions by promoting economic growth, employment and competitiveness. Some countries recognise that the economic benefits of Cohesion policy do not accrue solely to the poorer regions and Member States of the EU, but also spread to the more prosperous parts. Further, beyond the contribution to EU-level objectives and goals, Cohesion policy is recognised as having important positive influences on a range of domestic institutions, processes and policies. Looking to the future there is an increasing recognition of the need for Cohesion policy to be more firmly targeted on European added value.

**Territorial cohesion.** Member States are divided over the implications of territorial cohesion for the scope of Cohesion policy, financial allocations and the related responsibilities of different territorial levels. While some see no reason to change the remit

of the policy, others regard territorial cohesion as a means to provide additional measures and/or greater recognition of development challenges associated with specific territorial features.

**Spatial eligibility.** There is widespread agreement that the focus of support should be on the less-developed regions. Some countries have expressed support for a smaller share of funding to be available for all EU regions in order to promote competitiveness and jobs. There are also differences on the use of designation indicators.

**Thematic priorities and challenges.** There is widespread support for continued, if not increased, alignment of Cohesion policy with the major objectives and strategic development priorities of the EU through the Lisbon Strategy. However, there is no consensus on the role of Cohesion policy in addressing major challenges such as globalisation, climate change, demographic change and energy security.

**Management and implementation.** A large number of Member States have revealed significant dissatisfaction with the complexity and administrative burdens involved and pointed to the need for change, particularly by applying the principles of simplification and proportionality to a more meaningful extent than has been the case to date. The most burdensome area of policy administration concerns the rules on financial management, audit and control. Various Member States acknowledged subsidiarity as the guiding principle to underpin future reforms to the management of Cohesion policy. There is also a desire to make the more performance and results oriented. Lastly, the need for better policy coordination and integration across funds is highlighted, as well as improved coherence with other EU and national policies.

## **Future eligibility for Cohesion policy**

In the context of budgetary politics an important issue is the future eligibility for Cohesion policy. The distribution of funding for the 2007-13 period was principally based on GDP data for 2000-2 and GNI data for 2001-3. Data for three subsequent years has now been published and this already suggests some significant shifts in eligibility for the Convergence objective.

An updated EPRC analysis suggests that Convergence region coverage would become much more heavily concentrated in the new Member States. Although some EU12 regions would lose eligibility, the changes are not large compared with those in the EU15. Greece, Portugal and Italy would be the only countries with significant Convergence region coverage. By comparison, the position for the Cohesion Fund is relatively stable.

## **Discussion issues**

On the basis of the review of the budget and Cohesion policy consultations in this report, the following questions/issues are a starting point for discussion at the EoRPA meeting.

- What role should Cohesion policy have in dealing with new challenges?
- How should the added value of EU intervention be judged?

- How can the management and implementation of Cohesion policy be improved?
- How might a more performance-based Cohesion policy operate?

# **Ideas for Budget and Policy Reform: Reviewing the Debate on Cohesion Policy 2014+**

## **1. INTRODUCTION**

Over the past year, the debate on the EU budget - and the longer term development of the European Union - has come to life. Triggered by the Commission's consultation on the budget review, Member States, European institutions, subnational authorities, think tanks and interest groups have all contributed to research and debate on a possible reshaping of the EU's finances, on the expenditure and revenue sides, the way in which financial planning is conducted, and the policy priorities after 2013.

In parallel, a consultation on the future of Cohesion policy has also been underway, initiated by questions in the Fourth Cohesion Report. This has similarly encouraged discussion and the development of policy ideas, addressing the principles, objectives and priorities of the policy as well as its management and delivery mechanisms.

In some respects, the consultations on both the budget and Cohesion policy have something of an abstract character. Member State responses to the consultation exercises, at least, are frequently quite general. They tend to focus on broad policy objectives rather than developing specific ideas, or rehearse policy views from the 2005 debate, suggesting a certain wariness about stating or implying national positions at this early stage. This reflects the fact that the original purpose of the budget review - a mid-term re-assessment of spending in 2007-2013 - appears to have been quietly dropped, and the focus is shifting to the 2014+ period, the start of which is still five years ahead. A further factor is that the current Commission's mandate expires in 2009<sup>1</sup>, constraining its ability to take the political initiative on major issues such as budget reform.

Nevertheless, the launch of a debate at some distance from the start of negotiations is allowing new ideas to be explored. In particular, it is providing an opportunity for existing policies to be re-assessed and new policy objectives to be considered.

In this context, the following paper reviews the evolution of the debate, with respect to the two consultations on the budget and specifically on Cohesion policy. The paper is the latest in a series of EoRPA reports which have provided an annual review of developments in Cohesion policy, and builds on assessments of the 2005-06 negotiations and policy reform and the subsequent outcomes.<sup>2</sup>

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<sup>1</sup> Although the possibility of an extension of the Commission's mandate is currently being explored in the light of the problems of ratifying the Reform Treaty following the Irish 'no' vote.

<sup>2</sup> See for example: Bachtler J and Mendez C (2007) *Renewing Cohesion Policy: Recent Progress and Long-Term Challenges*, EoRPA Paper 07/03, European Regional Policy Research Consortium, EPRC, University of Strathclyde, Glasgow. Bachtler J, Mendez C and Wislade F (2007) *New Budget, New Regulations, New Strategies: The Reform of EU Cohesion Policy*, EoRPA Paper 07/03, European Regional Policy Research Consortium, EPRC, University of Strathclyde, Glasgow.

The paper begins by discussing the academic and policy research on the reform of the budget and then reviews the Member State contributions to the budget consultation. The paper then examines the review of Cohesion policy, beginning with an update on the implications of changes in regional data for eligibility and then examining the positions of Member States on the future of the policy. The paper concludes with some questions for discussion.

## 2. THE BUDGET REVIEW

The Inter-Institutional Agreement of April 2006 required the Commission to undertake “a full, wide-ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, to report in 2008/09..accompanied by an assessment of the application of the current IIA”.<sup>3</sup> This review was launched by the Commission President José Manuel Barroso on 12 September 2007 with a consultation paper,<sup>4</sup> introduced with the statement: “This budget review is unique, a once in a generation opportunity to make a reform of the budget and in the way we work”. The paper reviewed the evolution of the budget, the issues and principles for EU spending and the system for generating own resources. It also posed several questions for the consultation (see Box 1).

### Box 1: Budget review – consultation questions

- Has the EU budget proved sufficiently responsive to changing needs?
- How should the right balance be found between the need for stability and the need for flexibility within multi-annual financial frameworks?
- Do the new policy challenges set out here effectively summarise the key issues facing Europe in the coming decades?
- What criteria should be used to ensure that the principle of European added value is applied effectively?
- How should policy objectives be properly reflected in spending priorities? What changes are needed?
- Over what time horizon should reorientations be made?  
How could the effectiveness and efficiency of budget delivery be improved?  
Could the transparency and accountability of the budget be further enhanced?
- Could enhanced flexibility help to maximise the return on EU spending and political responsiveness of the EU budget?
- What principles should underpin the revenue side of the budget and how should these be translated in the own resources system?
- Is there any justification for maintaining correction or compensatory mechanisms?
- What should be the relationship between citizens, policy priorities, and the financing of the EU budget?

The launch of the consultation paper was used to stress several important points. First, it was described as a ‘unique opportunity’, separate from the Financial Framework negotiations on the post- 2013 period, and covering all policies (including agriculture) as well as the revenue side of the budget, including abatements/corrections. Second, the consultation was presented as being completely open; the terms ‘no taboos’, ‘frank debate’, ‘fresh-thinking’ and ‘no pre-conditions’ were frequently used. Third, the paper

<sup>3</sup> Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management, *Official Journal of the European Union*, C139, 14.6.2006.

<sup>4</sup> European Commission (2007) *Reforming the Budget, Changing Europe: A Public Consultation Paper in View of the 2008/2009 Budget Review*, Communication from the Commission, Brussels, SEC(2007) 1188, 12.9.2007

outlined several key principles for future policies, including subsidiarity, proportionality, efficiency and added value.

Originally due to run until the spring of 2008, the public consultation was extended until June 2008 and attracted several hundred responses from Member States, sub-national authorities, European institutions, the private sector, NGOs and interest groups, academia and individual citizens. The consultation results are due to be presented at a conference hosted by Commission President Barroso in Brussels on 12 November 2008 about the European Union's future budgetary priorities.

The following sections provide a broad review of the main themes to emerge from the consultation, drawing first on research papers and similar contributions and then examining the responses from Member States.

## **2.1 A new budgetary debate**

The budget review has prompted extensive academic and policy debate on the future political and policy direction of the EU. Four themes emerge: the need for change; the nature of change; the management of change; and likely scenarios for change.

One of the universal conclusions to be drawn from the consultation is the *need for change*. There is general recognition that the structure of the budget does not reflect the EU's political objectives and policy priorities. Many commentators highlight the need for ambitious goals and comprehensive reform, with a reform which is both broad in scope and looks to the future. In practical terms, this means aligning the EU budget with "evolving policy challenges such as the increase in global competition, climate change, migratory pressures and an ageing population"<sup>5</sup>. Indeed, some have argued that the EU should be looking beyond the current policy framework to consider more radical options, such as the giving the EU budget a stabilisation function - contributing to EU convergence by explicitly managing flows of revenue and expenditure to take account of the business cycle, and incorporating an explicit pillar to stabilise the cycle.<sup>6</sup>

This leads on to the *nature of change*, where much of the debate has focused on how the expenditure side of the budget should be allocated, especially the balance between EU spending for distribution versus public goods. In broad terms, the consultation indicates a need for increased spending on the environment, energy and competitiveness, research and knowledge (see Box 2) - as well as greater cross-policy coherence in meeting EU goals in

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<sup>5</sup> Larch M (Ed.) (2008) *Public Finances in the EU, Report on the Conference organised by the Bureau of European Policy Advisers of the European Commission on 3-4 April 2008 in Brussels*, BEPA, Commission of the European Communities, Brussels.

<sup>6</sup> Dullien S and Schwarzer D (2007) *Integrating the macro-dimension into the EU budget: reasons, instruments and democratic legitimacy*, EU-Consent EU-Budget Working Paper No.4, August 2007

these areas - and a reduction or reorientation of CAP spending towards rural development and other contemporary policy objectives.<sup>7</sup>

**Box 2: Initial results of the consultation –how the money should be spent?**

- ↑ **Environment** –vitality needs modern developments (*increase direct spending; align other policies with environmental needs*).
- ↑ **Energy** –deserves greater EU attention (*increase direct spending; concentrate research efforts on energy; promote low-energy lifestyle*).
- ↑ **Competitiveness, research, knowledge** - requires wider support (*increase expenditure (up to 25%); focus actions within other policies on improving competitiveness*);
- ↓ **Agriculture** –amounts and efficiency of spending do not address the new reality (*maintain CAP as EU policy reinforcing Pillar 2; separate CAP from the budget; introduce co-financing; re-orient CAP towards new goals*).

**Source:** Reforming the Budget, Changing Europe (*op. cit.*)

Several contributions<sup>8</sup> explicitly recall the 2005 Sapir report, which criticised the EU budget as being a ‘relic of the past’ with too much focus on the CAP, too little focus within Cohesion policy and insufficient attention to EU public goods. The CAP is often singled out for particular criticism, on the basis of a mismatch between aims, principles and spending and perceived large-scale inefficiency. Cohesion policy receives less criticism on principle, but is also seem as suffering from problems of inefficiency, inadequate targeting insufficient impact.

On the other hand, there are clearly concerns about how changes to such policies would affect the direction of European integration:<sup>9</sup>

*“there exists a great risk that a weak European budget would lead to the renationalization of common policies so painstakingly constructed over time...[and]...would not offer the necessary means to strengthen policies with real ‘added value’ to European action. The dynamics of European construction would then be shattered”.*

<sup>7</sup> *Reforming the Budget, Changing Europe*, Presentation by Dalia Grybauskaitė, Commissioner for Financial Programming and the Budget to Members of the House of Lords, House of Commons and European Parliament, London, 3 July 2008.

<sup>8</sup> AIV (2008) *The Finances of the European Union*, Advisory Council on International Affairs, No.58, The Hague, December 2007. Richter S (2008) *On the Net Financial Position of Member States vis-à-vis the EU Budget and a Proposal for Reform* EU-Consent EU-Budget Working Paper, No. 7, August 2008. WIIW 2008, Ferrer 2008, 7)

<sup>9</sup> Lefebvre M (2005) *What kind of European budget for 2013? Means and policies of an enlarged Union*, Centre des Etudes Européennes de Strasbourg, Paris.



Further, while it may be “almost a fait accompli that the total CAP budget will be cut in real terms in 2013 as Europe’s agriculture sector continues on its trajectory of greater market orientation”,<sup>10</sup> it is argued that there has been insufficient consideration of the implications of cutting back on the CAP. In particular, there are perceived negative externalities associated with the withdrawal of public support for agriculture, such as landscape and ecological change and loss of habitats, and socio-cultural implications arising from consolidation of farms. New forms of intervention at national level may also increase.

With respect to Cohesion policy, some EU12 commentators have stressed the importance of the EU demonstrating the same kind of solidarity with the new Member States as was shown to the poorer countries of the EU15.<sup>11</sup> However, the fundamental issue for most is not the existence of the policy per se - there is considerable agreement on the importance of convergence as an EU objective - but its coverage/focus and the way that it is implemented. On the issue of coverage, different proposals are put forward - for example, concentrating convergence support on relatively poor Member States<sup>12</sup>. With respect to implementation, the issues are commonly those of administrative complexity and bureaucracy such as the multiplicity of objectives, different levels of regulation, too many priorities and targets of support, changing guidelines, difficulties with financial management and audit. They also reflect insufficient investment in administrative capacity in terms of skills, knowledge, guidance, organisational procedures and systems, and inadequate coordination across policy areas and institutions, both vertically and horizontally, to achieve the objectives set.<sup>13</sup>

In charting the way forward, DG Budget has defined two key questions for assessing EU policy intervention:

- a) re-applying the principle of European value added/subsidiarity in discussing anew the level at which the objectives of the proposed action can best be achieved (EU, national, regional, local); and
- b) choosing the appropriate tool on the basis of the principle of proportionality: coordination; legislation; public spending - national and/or EU.

These principles are also underlined by other respondents, especially the need to take account of policy effectiveness in determining the reallocation of spending, as well as not restricting the choice of policy mode to funding and considering the role of regulation or coordination as potential policy levers.<sup>14</sup> There are also many reminders of the small size

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<sup>10</sup> IEEP (2007) *Towards the CAP Health Check and the European Budget Review: The proposals, options for region and issues arising*, Institute for European Environmental policy, September 2007.

<sup>11</sup> Inotai A (2007) Reflections on the future of the EU budget with special reference to the position of the net beneficiary countries, *Romanian Journal of European Affairs*, Vol. 7, No. 3, October 2007.

<sup>12</sup> AIV (2007) *op. cit.*

<sup>13</sup> AER (2007) *AER Study on Regional Policy 2014+*, Assembly of European Regions, [www.aer.eu](http://www.aer.eu)

<sup>14</sup> Begg I (2007) *The 2008/9 EU Budget Review*, EU-Consent EU-Budget Working Paper No.3, March 2007. SIEPS (2007) *Agenda 2014: A Zero-Base Approach*, European Policy Analysis, Swedish Institute for European Policy Studies, Stockholm.

of the EU budget (c. one percent of EU GDP), the need to adapt EU intervention to the resources available, and the primary role of national spending in most policy areas

Turning to the revenue side of the budget, the budget debate has also promoted extensive discussion of the own resources of the EU. On one side of the argument, there is considerable support for some kind of EU tax. One review considers the merits of a European VAT, excise duty, eco-duty, corporate income tax, personal income tax on the basis of several criteria (transparency, simplicity, dynamism, economic efficiency, equity), concluding that an eco-tax or corporate income tax would meet the criteria best.<sup>15</sup> The merits of a telecoms tax<sup>16</sup>, financial transactions tax<sup>17</sup> or foreign exchange tax<sup>18</sup> have also been highlighted. However, even those who support the principle of a tax-based own resource, warn that the political arguments over and EU tax could divert or derail the whole budget debate.<sup>19</sup>

Others are strongly opposed to an EU tax on theoretical, empirical and political grounds.<sup>20</sup> Indeed, one study concludes that *“our findings strongly reject the idea that a reform based on an EU tax-based own resource would remedy current problems..the distributive consequences would be immense and would therefore, in a counterproductive way create new necessities for compensation”*.<sup>21</sup> In fact, they see the link between the EU budget and national budgets as an incentive to control EU-level spending; instead, they propose phasing out VAT and basing the budget financing entirely on GNI. A strong emphasis on GNI and elimination of VAT as a basis for contributions are widely supported.<sup>22</sup>

A further issue relates to correction mechanisms. While there is a widespread view that correction mechanisms should be avoided, it is also recognised that some method for dealing with Member State concerns on net balances is required. One proposal is for a separation of budget and policy debates, first agreeing a budget that Member States are willing to finance and then moving on to how that budget should be spent.<sup>23</sup> An alternative

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<sup>15</sup> Le Cacheux J (2007) *Funding the EU Budget with a Genuine Own Resource: The Case for a European Tax*, Notre Europe, March 2007.

<sup>16</sup> Begg (2007) *op. cit.*

<sup>17</sup> Schulmeister S, Schratzenstaller-Altzinger M and Picek O (1008) *A General Financial Transactions Tax: motives, revenues, Feasibility and Effects*, WIFO, Österreichisches Institut für Wirtschaftsforschung, Vienna.

<sup>18</sup> Richter S (2008) *Searching new ways for financing the EU budget –on the prioposal of a European tax on foreign exchange*, Paper to Ökosoziales Forum Europa, 21 January 2008, Vienna Institute for Economic Studies.

<sup>19</sup> Sapir (2007) *Priorities for EU budget reform*, Paper to SIEPS 2007 Annual Conference ‘The Purse of the EU: Setting Priorities for the Future’, Swedish Institute for European Policy Studies, Stockholm 2007,

<sup>20</sup> Caesar R (2006) Die Finanzwirtschaft der EU - „Historisches Relikt“ oder solide Zukunftsbasis, *Zeitschrift für Politik* 3/2006, 333-352. Heinemann F, Mohl P and Osterloh (2008) *Reform Options for the EU Own Resources System*, Summary of Research project 8/06, Zentrum für Europäische Wirtschaftsforschung GmbH, Mannheim, 18 January 2008.

<sup>21</sup> Heinemann *et al* (2008) *op. cit.*

<sup>22</sup> *Reforming the Budget, Changing Europe (op. cit.)*

<sup>23</sup> Begg (2007) *op. cit.*

approach would be to develop a generalised correction mechanism so that net balances do not exceed a particular figure and reimburse the excess to Member States.<sup>24</sup> A detailed proposal for resolving the net balance issue is shown in Box 3.<sup>25</sup>

### Box 3: Principles for addressing the net balance issue

The **guiding principles** of the proposed new EU budgetary system are fair sharing of burdens across member states, citizens and firms; clear and simple rules for the collection of revenues and allocation of expenditures, without exemptions; and finally maximum possible flexibility in the utilization of resources from the EU budget.

The proposed new rules for **cross member state redistribution** are:

- Member state **contributions** are determined by the **member state GNI**, being different through differences in relative member state prosperity.
- Member state **receipts** are determined by the **per capita average EU GNI**, the same value for each member state.
- Differences in **net financial positions** of individual member states are determined solely by differences in **relative prosperity**, clearly measurable through the GNI indicator.
- **Solidarity** of member states would be expressed, contrary to the current situation, on the **revenue side** of the EU budget and not on the expenditure side.

Reform proposals for the **revenues** of the EU budget:

- The contribution from each member state is fixed as a **unified rate** (1%) of the member state GNI
- The contributions in each member state are collected via a splitting up of a **pre-fixed share** of collected **VAT** and **corporate income tax** revenues. Should revenues from both taxes surpass the pre-set sum of the member state's contribution, the surplus will be re-channelled to the member state treasury.

Reform proposals for the **expenditures** of the EU budget:

- **Each citizen of the EU** 'receives' a certain share (1%) of the average per capita EU GNI each year. Receipts from the EU budget at **member state level** would amount to 1% of the average per capita EU GNI multiplied by the number of inhabitants in the member state concerned.
- Receipts from the EU budget can be utilized to finance **eligible programmes** along various EU policies, but not for any other purposes.
- Each member state enjoys maximum possible **flexibility** in the allocation of its resources from the EU budget across eligible targets.

**Source:** Richter (2008) *op. cit.*

Apart from stressing the need for change, and proposing specific features of changes to be made, the budget review has prompted contributions on *how to manage change* to the budget and EU policies.

Several respondents suggest some institutional starting points for facilitating the development of more relevant policy objectives and financial planning: the alignment of the Commission's mandate and the electoral cycle of the European Parliament; an institutionalisation of the mid-term review to provide opportunities for adjustment to

<sup>24</sup> Lefebvre (2005) *op. cit.* The threshold proposed is 0.5 percent, considerably above the average for the major net payers over the past decade.

<sup>25</sup> Richter (2008) *op. cit.*

changing priorities; and avoidance of ‘red lines’ and pre-negotiated agreements.<sup>26</sup> In terms of managing the process of policy change, one proposal is for a ‘zero-base approach’, starting from a clean slate, defining longer term objectives (potentially over several financial periods) and planning a transition process.<sup>27</sup> As a political strategy, it stresses the need for analytical underpinnings – defining substantive priorities, analysing impact data, understanding national perspectives and developing strategies for policy termination. A similar approach taken by the Slovenia Taskforce involves analysis of the challenges, assessing the contributions of economic theory and accommodating political reality.<sup>28</sup>

Many contributors place emphasis on better independent assessment and understanding of the efficiency and effectiveness of policies (notably impact – what works, what doesn’t) as part of a more structured and systematic approach to making expenditure decisions.<sup>29</sup> A useful illustration of this kind of analytical approach is shown in Table 1, with six criteria – based on public economics and fiscal federalism – for assessing whether EU funding should be provided for a policy area, supplemented by political criteria and legal principles.<sup>30</sup>

**Table 1: Criteria for determining EU intervention**

Criteria for EU funding	
Public economics criteria	Does it involve market failure or equity goal?
	Is funding better than regulation or other instruments?
	Is intervention cost-effective?
Fiscal federalism criteria	Does it achieve economies of scale?
	Is there internalisation of externalities?
	Is there significant heterogeneity of preferences?
Political criteria	Does it meet EU objectives?
	Does intervention have public acceptance?
Legal principles	Does it respect the principle of subsidiarity?
	Does it respect the principle of proportionality?

**Source:** adapted from Figueira (2005) *op. cit.*; (2008) *op. cit.*

<sup>26</sup> Begg (2007) *op. cit.* Hagemann & Zulef (2008)

<sup>27</sup> Tarschys (2007) *op. cit.*

<sup>28</sup> Mrak M, Drobnič M, Erjavec E, Mavko M, Rant V, Ravnik B, Šušteršič J, Vajgl U and Wostner P (2007) *EU budget review: An opportunity for a thorough reform or minor adjustments*, Final Report of the EU Budget Reform taskforce, Ljubljana.

<sup>29</sup> Begg (2007) *op. cit.* Hagemann & Zulef (2008) *op. cit.*

<sup>30</sup> Figueira F (2005) *How to reform the EU budget? Going beyond fiscal federalism*, Utrecht University  
Figueira F (2008) *A better budget for Europe: economically efficient, politically realistic*, European Policy Analysis, Swedish Institute for European Policy Studies, Stockholm.

On the basis of Table 1, ‘high’ effectiveness of EU intervention is accorded to: research, education and transport policies (in meeting the EU objective of growth); Cohesion policy (convergence objective); and home affairs policy (internal security objective’. Policies with ‘medium’ effectiveness are recorded as: environment; restructuring and employment policies (sustainable growth objective); and defence, development and foreign policies (external security objective). Rural development (sustainable growth objective) is the only policy area rated as having ‘low’ effectiveness.<sup>31</sup>

The final issue considered by academic commentators are *scenarios for change*, focusing on how things might develop in practice. Although many commentators have stressed the importance of ‘going beyond the status quo’,<sup>32</sup> it has been noted that radical change is unlikely for several reasons<sup>33</sup>: first, the political salience of net balances is not going to disappear; second, the EU budget as a whole is unlikely to grow and may in fact be reduced; third, EU taxes are not acceptable to many governments (see also the following section); and fourth, Member States are unlikely to give up control over the budget. In this context, a more likely scenario is gradual change to the budget with a progressive reduction in spending on the CAP (but shifting funding to rural development or environmental action), improving the efficiency of Cohesion policy spending and building up spending on alternative areas. There may also be scope to simplify the system of own resources, focusing more (or exclusively) on GNI, and eliminating VAT.

One of the best-developed scenario plans has been undertaken by the Slovenian Taskforce, which articulates four scenarios: two variants of the status quo based on ‘existing expenditure’ and ‘existing policies’; and two scenarios involving substantive change, a ‘restrictive scenario’ with a minimalist EU budget, and a ‘community scenario’ which strengthens the role of the EU budget and common European policies. For each, the Taskforce considers different enlargement possibilities (to include Croatia, Western Balkans and Turkey), producing a set of possible expenditure commitments ranging from 0.71 to 1.32 percent of EU GNI.

A similar exercise conducted by Maxime Lefebvre presents three projections - a conservative scenario (based on retention of the current policy mix, and a budget limited to one percent of EU GNI), a competitiveness-solidarity scenario (involving a redeployment of resources to research, TENS, education etc but with the same budget ceiling); and a European public goods scenario, which goes beyond the one percent budget ceiling to include defence spending).

Such scenarios provide some insight into the possible financial parameters for the proposals made in the budget review. However, it is worth restating the view that “the most important service that the review can provide would be to engineer an irrevocable change

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<sup>31</sup> Figueira (2005) *op. cit*

<sup>32</sup> Larch (2008) *op. cit*.

<sup>33</sup> Zuleeg F (2007) *Reform of the EU budget – an opportunity for a radically different EU?* Paper to Seminar ‘EU Budget Review: Benefit for Europe and Lithuania’, Vilnius, 12 October 2007.

in the terms of the debate about the budget”, making the political and intellectual case for a new approach to budget and policy planning.<sup>34</sup>

## 2.2 Member State perspectives

Having discussed the general responses to the budget consultation, the following section reviews the responses of Member States. All of the Member States, apart from Slovenia, made some form of response if only partly dealing with all of the questions posed by the Commission. In general, there is a general welcome for having a debate on the budget separate from the financial negotiations; many countries support a discussion of revenue and expenditure in parallel and for all policies to be considered together. At the same time, several submissions explicitly recognise the difficulties involved in changing a complex system involving so many stakeholders, implying that the scope for change may be limited. Responses to the consultation are often cautious, often framed as ‘initial ideas’; several Member States noted that internal consultations were planned or ongoing.

### 2.2.1 General principles

In reviewing the overall approach of the submissions, several observations can be made on the general principles put forward by Member States. These relate to the size of the EU budget, the principles for future policy decisions, principles of financial management, the need for flexibility, and the long term nature of possible change.

First, the fundamental differences between Member States on ***the size of the EU budget***, which were so evident in the 2005 negotiations, continue unsurprisingly to feature in the budget consultation. On the one hand, Sweden argues for a “leaner, yet sharper budget” with substantial reprioritisation of expenditure. The United Kingdom takes a similar view on the need for a reorientation of the budget. The Netherlands considers that total spending must remain constant as a percentage of GNI; Austria also advocates a long-term trend of keeping spending at about one percent of GNI. On the other hand, Greece, Poland and Portugal emphasise the need for the EU budget to have sufficient resources, warning (in the case of the Polish submission) that budget reductions will reduce responsiveness to changing needs. Romania considers that the current budget ceiling may be acceptable in the short to medium term but would have to be increased to fund future developments in European integration such as further enlargement.

Second, Member States identify a range of principles on which future policy priorities should be based - ***added value, solidarity, proportionality, subsidiarity***.

- With regard to resource allocation, ‘added value’ is seen universally as a basic principle governing expenditure decisions but with different interpretations (see 2.2.2 below).
- ‘Solidarity’ is cited as a key principle by almost all the EU12 together with Greece, Portugal and Spain, explicitly or implicitly referring to the need to maintain

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<sup>34</sup> Begg (2008) *op. cit.*

expenditure on Structural and Cohesion Funds. As the Greek submission notes (p.7): *“Cohesion policy...constitutes a fundamental expression of solidarity”*. Solidarity is also mentioned in the submissions from the Netherlands and the UK but is interpreted as focusing resources on the poorest Member States.

- ‘Proportionality’ is listed by some Member States but often without definition. Where it is explained, it means ensuring that the most appropriate instruments are used (France, United Kingdom) or that the content and form of actions are not excessive (Sweden) - see also 2.2.1 below.
- ‘Subsidiarity’ is similarly mentioned in several submissions but without being clearly defined; under this principle, Denmark argues that Member States should assume more responsibility for the funds which they manage, a point which is echoed by some other countries with respect to management and control systems (e.g. Slovakia).

Third, a similar set of principles are put forward for management of the budget as a whole - ***equity, transparency, efficiency/effectiveness and simplicity***.

- The most common concern for almost all countries is that the impact of the budget on individual Member States is seen to be ‘fair’ and ‘equitable’ in terms of the relationship between contributions and receipts. The principle of equity is used to justify arguments on both the revenue and expenditure side of the budget; perhaps paradoxically, the use of balancing mechanisms is generally rejected - see 2.2.4 below.
- The principle of ‘transparency’ is used either to advocate greater openness in the resource allocation methodology (Austria, Germany) or to improve accountability to auditors and citizens on the use of funding (Hungary, Poland, Slovakia).
- ‘Efficiency/effectiveness’ are mentioned by some Member States in connection with improved management of EU funding, particularly the reduction of administrative expenditure by European institutions (Austria, Denmark) or more performance-based governance (France, United Kingdom), and the need for improvement in audit and control systems to meet the concerns of the European Court of Auditors (Denmark, Netherlands, Sweden). The importance of more/better monitoring and evaluation is also highlighted under this heading (Austria, France, Germany, Italy, Poland).
- Lastly, greater ‘simplicity’ is highlighted by a few Member States, referring either to the need for more coherence in EU policymaking (Austria, United Kingdom) or the need to simplify administration; indeed the Austrian submission noted that (p.2): *“if no progress is made in further simplifying programme administration, Austria would be led to reconsider its present positive attitude towards the principle of shared management”*

Fourth, the submissions from Member States suggest they see ***little need for more flexibility*** in the EU budget. Most of the countries responding on this issue believe that the

multi-annual frameworks provide important stability and predictability (e.g. Germany, Hungary, Latvia, Poland, Slovakia, Sweden). Romania is one of the exceptions, considering that expenditure ceilings limit flexibility in addressing medium/long-term objectives. The general view is that more flexibility would be desirable *within* the expenditure ceilings for individual policies, as well as potentially providing a greater margin to deal with unforeseen developments or crises (Estonia, Sweden).

Finally, Member States are universally keen to ***avoid making significant changes to the 2007-13 financial framework*** but to focus the budget review on the post-2014 period. Some countries also stress that the resource allocation decisions should be completely open, avoiding the type of pre-emptive decisions made on the CAP in 2002. The German submission notes that (p.6): *“before the end of this process, no a priori commitments can be made for individual spheres which would have an impact on future financial frameworks”*.

### **2.2.2 Added value**

Added value was the subject of a specific question in the Commission consultation paper, where Member States were asked what criteria should be used to ensure that the principle of European added value is applied effectively.

One of the striking conclusions from the consultation is the universal support among Member States for decisions on future EU policies to be based on their European added value. Whatever the national views on the size, shape or content of the budget, every submission agreed that policies needed to demonstrate, or be justified by, their added value.

This commitment to added value can immediately be qualified by the different interpretations (or the lack of interpretation) of what added value means in practice. Most commonly, EU policies are perceived as having added value if they generate greater benefit to the EU citizens if carried out at EU level in comparison to national or local levels (e.g. submissions from the Czech Republic, Denmark, Netherlands, Slovakia, United Kingdom) or in comparison to private initiatives (Netherlands). However, as the lists of criteria proposed by Cyprus, Germany, Hungary, Poland and Spain (see Table 2) indicate, there are many other definitions of added value. These broadly divide into two groups:

- specific criteria which would involve attempting to quantify or otherwise measure the effectiveness, efficiency or efficacy of particular policies, such as through evaluation, cost-benefit analysis or impact analysis;
- broad criteria based largely on political judgements on the contribution of policies to European objectives/interests, international cooperation, European values/ideas or the process of European integration.



**Table 2: Criteria proposed by Member States for assessing the added value of EU policies**

Proposed added value criteria	CY	DE	ES	HU	PL
Cost-effectiveness - lower cost through using EU instruments; justified by CBA		*			*
Financial synergy - critical financial mass only achievable at EU level		*		*	*
Efficiency/economies of scale	*	*		*	
Policy additionality - better outcomes through EU action than national measures		*			
Nature of the problem - requirement for, or contribution to, European cooperation	*	*			
Positive externalities for EU integration e.g. security, single market, justice area	*	*	*	*	
Collective/shared Member State interests - facilitates/maximises collective action	*	*	*		*
Multiplier effects - through synergies, enhances effort by Member State resources			*		
Adaptive capacity - facilitating MS adjustment to Community decisions					*
Contribution to EU objectives - e.g. cohesion, competitiveness	*			*	
Provision of EU public goods - e.g. safety, border control, environmental standards	*			*	
Coherence - contribution to inter-policy coherence and coordination	*			*	
Promotion of European idea - making membership benefits visible to the citizen	*				

As the German and Spanish submissions recognise, added value is a difficult concept to specify and measure. However, there appears to be a widespread desire to have a structured process in place which combines whatever quantitative measures are available with qualitative assessments in order to improve decisions on resource allocation and the wider management of the EU budget:

*“a qualitative slant on European valued added can indicate whether a policy financed by the Community budget is likely to have a greater impact than national financing...[but]...the concept cannot provide a reliable, precise and viable answer to the question as to whether a policy should be financed from the Community budget...[therefore]...we should make greater use instead of the most precise possible objectives, impact assessment, cost-benefits analyses and evaluations”* (German submission, p.6).

*“the Community budget must stimulate through its planning and evaluation of expenditure, a business organization and management focused culture, aimed at promoting competitiveness and efficiency at all levels of the Union”* (Spanish submission, p.3)

The different emphases placed on the various criteria reflect the political approaches of Member States to the budget. For those countries seeking to restrict the size of the EU budget, the added value criterion is seen as a way of ensuring value-for-money, for example: *“in those cases where expenditure at the EU level is deemed to be appropriate, our citizens rightly expect it to be used efficiently sand that it generates palpable results..and provides a real European added value”* (Swedish submission, p.3).

By contrast, submissions from other Member States suggest wariness about how an added value test might be used. The Greek submission argues that the added value of Community funding “should not be questioned” where associated with the implementation of Community policies. The Portuguese contribution warns that assessments of added value should not:

*“lose focus by giving more weight to costs than benefits: all gains, whether direct or indirect should be taken into account....certain benefits cannot immediately be quantified and, since the European project is based on values, promoting those values has clear added value in itself.”* (Portuguese submission, p.2)

### **2.2.3 Policy priorities**

Moving on from general principles, one of the main objectives of the budget consultation is to consider new challenges and spending priorities. Here, there appears to be considerable consensus in three main areas.

- First, every Member State supports more emphasis on research and innovation; in some cases, the knowledge economy is regarded as the ‘top priority’. This is frequently framed in the context of a broader approach to ‘competitiveness’ or the Lisbon strategy with support also for entrepreneurship and SMEs, education and training, and (in some cases) social protection. The further development of Trans-European Networks is seen as important by some countries, although others question the cost-effectiveness of some investment in this area.
- A second area of agreement is the importance accorded to EU-level action on environment and energy issues, through efforts to mitigate climate change and enhance energy security, more incentives for renewable energy and energy efficiency and more attention to environmental protection.
- Third, Member States largely agree on the importance of the EU’s external and internal policies in promoting political stability in neighbouring countries, international development and addressing terrorism, transnational crime, and migration (with specific reference by some countries to sharing the burden of external border controls). The importance of better crisis management is advocated by some Member States, with particular geographical priorities being the Western Balkans, Middle East and Mediterranean.

Apart from these general areas of support, there are some specific policy priorities, such as consumer policy (Germany), space research (France) and maritime issues (Portugal). The problem of demographic ageing is mentioned by Austria, Finland, France and Romania.

The difficulty for the EU is how to respond to these major and complex policy priorities. Several Member States are concerned about the implications for the EU budget and prefaced their submissions on policy issues by stressing that not every challenge of change requires additional Community spending and that any funding needs to be targeted (Czech Republic, Estonia, Finland, France, Germany, Netherlands, United Kingdom). Recalling the above discussion of added value, the Czech Republic notes that EU intervention is only

required where national action and resources are insufficient. The Dutch, French and United Kingdom submissions stress that consideration should be given to non-financial instruments (e.g. regulation, coordination of national policies, exchange of good practice), the scope for using alternative financing options (such as EIB lending) and the need for selectivity - giving priority to areas where EU leverage can be maximised.

The submissions from other Member States suggest a concern with the impact of reshaping the budget on national receipts. Both Ireland and Poland argue that changes to budget/policy priorities should be gradual, with new initiatives being phased in over time. Bulgaria and Romania are two of the countries stressing the role of Cohesion policy in meeting the competitiveness objectives of the EU as well as contributing to the EU policy responses on climate change.

The obstacles to reorienting the budget are evident in the Member State views on the future of the CAP.

*(i) Agricultural policy*

One of the major fault lines in the budgetary debate is agriculture; indeed, Denmark states that “the CAP is at the centre of the budget review”. For one group of Member States, the CAP needs major reform. The United Kingdom, for example, is clear: spending on Pillar 1 of the CAP should be phased out. Denmark, Estonia, Malta and the Netherlands share this view, in the Dutch case arguing for a break in historical patterns of expenditure allocation and fast transition, while the Danish submission foresees scope for phasing out direct agricultural subsidies by 2025. All four Member States consider that rural development funding under CAP Pillar II should focus on public goods such as the environment, ecology, food safety and animal welfare, with (in the Danish view) support for poorer areas being transferred to Cohesion policy.

However, the phasing out of the CAP appears to be minority view. For most Member States, adjustment rather than radical reform is necessary, with an emphasis on maintaining a competitive agricultural sector. For example, France sees a need for the CAP to: ensure the food security of European consumers, based on a steady, accessible, healthy and safe food supply; contribute to global food balance; help the fight against climate change and for environmental improvement; and preserve ‘territorial balance’. Similarly, Portugal argues that the food supply objective of the CAP “regains strategic relevance in the current phase of rising food prices”. Other countries, such as Austria, the Czech Republic and Lithuania supports the continuation of Pillar 1 but place more emphasis on its role in securing compliance with standards in environmental protection, reducing emissions, biodiversity, food safety and animal protection. CAP reforms to ensure a greater market orientation of the agricultural sector are stressed by the Czech Republic, Estonia, Germany, Italy and Slovakia; the Czech Republic sees the need for a wider liberalisation of protectionist measures to open up agricultural trade. For EU12 countries, such as Latvia and Romania, a key issue is to ensure that future CAP support is based on equal eligibility conditions and support levels across all Member States.

There is more common ground among Member States on the importance of strengthening rural development support under Pillar 2. However, while many countries advocate transferring resources from Pillar I, others (e.g. Greece) consider that additional Pillar 2 resources should be provided from elsewhere in the EU budget.

In defending the CAP, many of the submissions note that agricultural support has already undergone extensive reforms and reductions as a proportion of the EU budget. Spain makes an explicit political statement that: *“any discussion about reforming the CAP beyond a ‘medical check up’ must be linked to the British rebate and compensations review”*.

There is also considerable resistance to the question of reducing CAP expenditure but introducing national co-financing. While Italy considers that co-financing should be mandatory to avoid distortions between Member States and (even on a limited basis) would release funding for other priorities, this is rejected by a range of countries (Estonia, Czech Republic, Greece, Hungary, Lithuania, Poland, Romania). The main concern is that national co-financing would lead to competition in subsidies among Member States, placing disproportionate pressure on the budgets of poorer countries, and distortion of the internal market in agricultural products.

#### (ii) Cohesion policy

There are similar divisions among Member States on the future of Cohesion policy. The most radical position is taken by the UK: that Cohesion policy should be limited to the poorer Member States and phased out in richer countries. Denmark, Ireland, the Netherlands and Sweden also favour Structural and Cohesion Funds being directed to the least prosperous regions in the least prosperous countries, supplemented by cross-border and/or transnational cooperation programmes. Several of the submissions underline the importance of richer countries being responsible for their own regional development challenges. As the Swedish submission notes, outside the areas most in need (p.4): *“national and regional efforts should be the basis for regional development. Collaboration, exchange of experiences and benchmarking between regions will safeguard the European dimension of regional development measures.”* These views are shared by some of the EU12: Estonia argues that the financing of poorer regions in richer states should be reconsidered, while both the Czech Republic and Romania are in favour of increasing the focus of the policy on the least-developed Member States.

Other richer Member States are less radical. Germany advocates focusing resources on ‘structurally weak regions’ but sees a continued case for other regions being given ‘targeted assistance in developing their competences’. Finland and France take a similar view, supporting measures for growth competitiveness and jobs being implemented across the EU. Austria is also cautious, supporting the concept of a ‘comprehensive and integrated structural and regional policy’ but (like Finland and Germany) believes that spending should be focused on higher added value measures, especially in richer parts of the EU. Several of the more prosperous countries - Austria, Denmark, Sweden - are concerned to ensure that allocations under Cohesion policy are made on the basis of relative wealth so that countries with comparable levels of GDP should benefit equally from returns from the EU budget.

The maintenance of an EU-wide Cohesion policy is supported strongly by other EU15 countries, such as Greece, Italy, Portugal and Spain. According to the Italian submission (p.2): *“All territories of the Union should have a chance to exploit their development potential...[and]...contribute to EU competitiveness regardless of the average development levels of the Member States to which they belong”*. Greece is especially concerned to avoid ‘discrimination between old and new Member States’.

For the newer Member States, Cohesion policy plays a still more central role in national thinking about the budget. Many of the EU12 preface their budget submissions by highlighting the wide disparities in development levels and the barriers to the achievement of existing European objectives (such as the internal market) as well as new policy priorities (Cyprus, Czech Republic, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia). The Polish submission notes that (p.4): *“if new development challenges are to be effectively met, it is a prerequisite to strengthen the Union’s cohesion”*.

There is clearly some concern among the EU12 at the implications of new policy priorities for spending on Cohesion policies. Most of the new Member States the EU12 highlight ‘solidarity’ as one of the main principles of EU budget spending and the need for ‘adequate resources’, meaning (in the Czech and Romanian view) a greater concentration of Cohesion policy funding on the less-developed Member States. Lithuania warns that (p.2): *“new challenges should not overshadow the main objectives of the Cohesion policy...and should not change the purpose of this policy”*. Hungary argues that, in the light of recent changes to the policy, major reform is not required, and the debate should concentrate on improving complementarity and coherence with other EU policies

The Danish and German submission specifically reject the use of the ‘territorial cohesion’ concept to support areas on the basis of specific geographic criteria. In the German view (p.8): *“the creation of new criteria for the selection of the least developed regions could water down cohesion policy and diminish their efficiency”*. Cyprus, Greece, Poland, Portugal and Spain take a different view. The Portuguese submission argues for an ‘integrated and flexible approach to territories’ to foster more polycentric development in the EU. The Spanish submission advocates that (p.7) *“particular attention should be paid to regions with specific geographic handicaps which affect their competitiveness, as is the case of ultra peripheral regions”*. For Greece, the adoption of a policy for EU islands is of particular interest and similarly for Cyprus and Malta.

#### **2.2.4 Own resources**

The final set of questions in the budget consultation relate to the revenue side of the EU budget and specifically the operation of the own resources system and the justification for maintaining correction or compensatory mechanisms.

Overall, there is little consensus on how the EU should generate revenue. On the one hand, there is some support for an EU tax, the allocation of part national tax shares to the EU or some other new financial instrument for revenue generation on the basis that it could be simpler, fairer and more transparent (Austria, Finland, France, Italy, Luxembourg). However, other countries are ambivalent (Romania, Spain) and many Member States are

completely opposed to an EU tax (Ireland, Lithuania, Netherlands, Poland, Slovakia, Sweden) either on principle or because the “current level of political and economic integration does not appear to be compatible with the adoption of taxes as a basis for own resources” (Polish submission). Among the latter group, there is general support for maintaining a GNI-based system - and indeed in many cases abolishing the VAT resource to leave GNI as the sole source of financing, although some new Member States consider that this would be damaging for them.

As noted above, a key principle for many Member States is that there should be ‘fairness’ in their budget contributions; in some cases, this is judged on the basis of the relationship between national GDP and budget payments, in others in terms of net balances. The majority of countries are opposed to special corrections for individual Member States or a general correction mechanisms, but some consider that, unless fairness can be addressed on the expenditure side, a balancing mechanism will be necessary (France, Italy, Malta, Sweden).



### 3. THE REVIEW OF COHESION POLICY

#### 3.1 Policy context and milestones

The debate on the future of Cohesion policy post 2013 was formally launched with the publication of the European Commission's Fourth Report on Economic and Social Cohesion on 30 May 2007. As well as providing an account of the state of economic, social and territorial development in the EU27, an assessment of the impact of Cohesion policy in 2000-2006 and some initial results of the 2007-13 programming exercise, the report took stock of the regional development challenges in the years ahead and posed a series of questions as a basis for a public consultation on the future of Cohesion policy.

Initial reactions and views from a broad array of stakeholders were exchanged and debated at the Fourth Cohesion Forum held in September 2007.<sup>35</sup> At the political level, the debate was taken forward by the Portuguese Presidency of the EU Council, which organised an informal ministerial meeting in the Azores in November 2007 on the themes of territorial cohesion and regional policy. The Slovenian Presidency organised a major conference with more widespread participation in Maribor in April 2008, following the conclusion of the Commission's public consultation (the results of which were reported by the Commission in the Fifth Progress Report on Cohesion, adopted in June 2008<sup>36</sup>).

As part of its internal preparation process, the Commission is investing considerable resources into the coordination of a series of internal and external studies to draw out lessons for the future and feed into the process of strategic reflection. Much of this work should be finalised by the end of 2008 or in 2009, including: the ex-post evaluation of the 2000-2006 period; studies on Cohesion policy governance, management and implementation systems and the costs involved, governance methods for regional innovation strategies, and on the distribution of regional development competencies in EU Member States; a study on the dynamics and implications of the challenges facing regions with a 2020 time-frame; and the Green Paper on Territorial Cohesion. A first set of guidelines with concrete reform proposals are anticipated to be published by the Commission in Spring 2009.

The following sections review the main themes to emerge from the debate on the future of EU Cohesion policy. To set the budgetary context, it begins with an overview of the main changes to eligibility based on the latest available data, since this determines Member State priorities. The final two sections provide an outline of the Commission's views on the reform, followed by a review of Member State responses to the consultation.

#### 3.2 Budgetary context and eligibility

At the heart of the reform debate on EU Cohesion policy is a complex set of budgetary issues concerning overall expenditure and the allocation of finance to countries and

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<sup>35</sup> For a review see Bachtler J and Mendez C (2007) *op cit*.

<sup>36</sup> Communication from the Commission to the European Parliament and the Council: *Fifth progress report on economic and social cohesion Growing regions, growing Europe*, COM (2008) 371, Brussels.



regions. At this stage in the debate, the overall amount of the budget and the share for Cohesion policy in that total is an unknown. It is also unclear just how much of an appetite there is for a fundamental reform of budgetary principles, or whether modest adjustments of the current mechanisms are more likely. However, it is clear that, unless steps are taken to disentangle decisions about revenue-raising from those about spending, the distribution of Cohesion policy resources will continue to be an important element in determining acceptable net balances. Moreover, eligibility for the Convergence priority - both the regional (formerly Objective 1) and the national element (ie. the Cohesion Fund) has become entrenched in Commission policy. It is arguable that the so-called Berlin formula has also achieved this status, although the final negotiations of both the 2000-6 and 2007-13 Financial Perspectives involved substantial tinkering with the methodology to achieve politically acceptable outcomes.

The distribution of funding for the 2007-13 period was principally based on GDP data for 2000-2 and GNI data for 2001-3. Data for three subsequent years has now been published and this already suggests some significant shifts in eligibility for the Convergence objective. These are summarised in Figure 1.

Current convergence coverage involves 84 regions in 18 Member States and a total population of around 154 million, this being over 31 percent of the EU27 population. On the basis of GDP data for 2003-5, this would fall significantly - to 67 regions in 15 Member States and total of 121 million inhabitants, or about 25 percent of the EU population. These changes arise from a combination of regional economic change and the impact of Bulgaria and Romania on EU average GDP - ie the shift from EU25 to EU27, which entails a further 'statistical effect'.

At the national level, the principal changes would be as follows within the 'old' Member States:

- Germany: would lose all convergence coverage
- Greece: three regions would lose eligibility, with coverage falling from 37 to 24 percent of the national population
- Spain: three regions would lose eligibility; only Extremadura would retain it so that coverage would fall from 31 percent to 2.5 percent of the population
- UK: West Wales & the Valleys; Cornwall & Scilly Isles would lose eligibility, so that the UK would have no Convergence regions.

Importantly, however, changes are not limited to the EU15:

- Malta would lose convergence status
- Poland: the region of Mazowiecki would lose convergence status
- Slovenia: following split into two NUTS 2 regions, one would lose eligibility.

Situation would be unchanged in the remaining countries currently concerned by Convergence status, namely: Bulgaria, Czech Republic, Estonia, Italy, Latvia, Lithuania, Hungary, Portugal, Slovakia.

**Figure 1: Current eligibility and future eligibility changes**

	2007-13 Coverage (2000-2 GDP data)			Future eligibility? 2003-5 GDP data	
	Convergence	Phasing-out	Phasing-in	Convergence	Phasing-out?
<b>EU27 Pop (m)</b>	153798.8	16594.5	19534.2	121088.3	39837.7
<b>EU27 Pop (%)</b>	31.4	3.4	4.0	24.6	8.1
<b>EU27 no of regions</b>	84	16	13	67	25
<b>Belgium</b>		12.3			19.1
<b>Bulgaria</b>	100.0			100.0	
<b>Czech rep</b>	88.6			88.5	
<b>Germany</b>	12.3	6.1			13.3
<b>Estonia</b>	100.0			100.0	
<b>Ireland</b>			26.7		
<b>Greece</b>	36.5	55.7	7.8	23.6	32.7
<b>Spain</b>	31.0	5.8	20.6	2.5	28.4
<b>France</b>	2.9			2.9	
<b>Italy</b>	29.0	1.0	2.8	28.8	4.4
<b>Cyprus</b>			100.0		
<b>Latvia</b>	100.0			100.0	
<b>Lithuania</b>	100.0			100.0	
<b>Hungary</b>	71.9		28.1	71.8	
<b>Malta</b>	100.0				100.0
<b>Austria</b>		3.4			
<b>Poland</b>	100.0			86.5	13.5
<b>Portugal</b>	67.6	3.9	2.3	67.5	3.9
<b>Romania</b>	100.0			100.0	
<b>Slovenia</b>	100.0			53.9	
<b>Slovakia</b>	88.8			88.8	
<b>Finland</b>			12.8		
<b>UK</b>	4.0	0.6	4.4		4.0

**Source:** Commission information from Inforegio and own calculations from Eurostat data.

A number of points arise from this. Convergence region coverage would become much more heavily concentrated in the new Member States. In these countries the only losses would be Mazowiecki, Malta and Zahodna Slovenija. These losses are significant, particularly in the case of Malta, which, for 2005-7 has GNI of less than 75 percent of the EU27 average and Mazowiecki, which has significant population and is the capital region of Poland and therefore a major driver of the national economy. On the other hand, the changes are not large compared with those in the EU15 where Greece, Portugal and Italy would be the only

countries with significant Convergence region coverage; the absence of Spain and Germany would have important implications for lobbying.

Although most of the new Member States would retain Convergence status, growth rates have been high (compared to most of the EU15). This is especially so in the Baltic States and Slovakia (eg. Estonia, GNI 48.2% of EU27 in 2001-3 to 64.8% by 2005-7). As a result, other things being equal, convergence allocations would rise in those Member States affected by capping for 2007-13 - in other words, even regions which are relatively more prosperous could receive higher allocations post-2013 owing to GDP growth and its impact on the absorption cap.

All of those regions which would lose Convergence status on the basis of the EU27 average for 2003-5 would still be eligible for Convergence status if the EU15 average were used. In addition, most of the existing Phasing-out regions as well as some current Phasing-in regions and some areas that are current not designated also have GDP per head below the EU15 75 percent threshold. These regions are included as Phasing-out areas in Figure 1.

This mixed pattern of economic growth (with particularly poor performance in Italy, Portugal and Belgium) coupled with loss of convergence status in Germany, Spain and Greece, seems likely to fuel demands for generous transitional arrangements.

For the Cohesion Fund, based on current data, the position is relatively stable (see Figure 2). Based on 2005-7 data, Greece would lose Cohesion Fund eligibility, and thus only Portugal among old Member States would retain it. Based on current growth trajectories in relation to EU27 average, Cyprus and Slovenia are also likely to cease to qualify, although it is worth noting the precedent in Spanish eligibility under the current Financial Perspective.

Figure 2: GNI(PPS) per head (EU27=100)

	2001-3	2002-4	2003-5	2004-6	2005-7	CF 2007-13	CF post 2013?
EU27	100.0	100.0	100.0	100.0	100.0		
Belgium	126.4	125.1	123.2	122.0	121.9		
Bulgaria	31.3	33.2	34.4	35.6	36.8	Y	Y
Czech Rep	69.0	69.9	71.7	73.0	74.6	Y	Y
Denmark	126.3	126.3	126.6	128.0	128.2		
Germany	115.8	116.3	116.8	116.5	116.0		
Estonia	48.2	51.4	55.6	60.2	64.8	Y	Y
Ireland	116.5	119.3	121.7	123.4	124.9		
Greece	90.1	92.0	93.1	94.5	95.7	Y	?
Spain	99.2	100.1	100.8	101.9	102.6	[Y]	
France	116.1	113.9	112.6	112.3	112.1		
Italy	113.4	109.6	107.3	105.0	103.4		
Cyprus	87.1	87.2	88.1	88.7	89.5	Y	Y
Latvia	41.4	43.3	46.0	48.9	52.7	Y	Y
Lithuania	44.4	47.2	50.0	52.4	55.2	Y	Y
Lux	199.3	203.6	210.4	223.7	226.8		
Hungary	58.4	59.6	60.2	60.2	60.2	Y	Y
Malta	79.5	78.4	76.1	74.6	74.5	Y	Y
Neths	134.3	133.5	132.4	132.9	133.5		
Austria	126.6	127.6	127.9	127.3	127.2		
Poland	48.1	48.5	49.0	49.7	50.9	Y	Y
Portugal	75.9	75.3	74.6	73.4	72.6	Y	Y
Romania	29.4	30.9	32.7	35.0	37.1	Y	Y
Slovenia	80.9	82.6	84.3	86.0	87.6	Y	Y
Slovakia	53.3	54.1	55.8	58.9	62.8	Y	Y
Finland	115.0	115.5	115.4	117.4	118.3		
Sweden	122.5	123.8	124.4	125.4	126.1		
UK	121.3	123.2	123.1	121.8	120.0		

Source: Own calculations from DG ECFIN data.

### 3.3 The Commission perspective

The Commission has laid the basis for the debate on the future of Cohesion policy through the publication of the Fourth Cohesion Report and the launch of the public consultation. As yet, however, it has not presented any orientations or specific proposals for reform, although the consultation questions do provide some indication of the main parameters and direction of potential change. In addition, Commissioner Hübner has outlined some tentative and general ideas on the future of policy in various fora of reflection and debate, including Council Presidency meetings, policymaker seminars and public events. In reviewing this material, several main themes appear to underpin the Commission's current stance on the future of policy.

First, regional development in Europe and ***the role of Cohesion policy must be seen within the context of global challenges***. As outlined in the Fourth Cohesion Report, these include: globalisation and the acceleration in economic restructuring as a result of the changing international division of labour; changes in the structure of the population which

is ageing and decreasing; territorial pressure of climate change; and the economic impact of energy prices. Commission views on the precise role and contribution that Cohesion policy can make to these challenges have not been articulated yet, although Commissioner Hübner clearly recognises that it cannot be the only instrument to address them:

*“do not get me wrong – I do not think that cohesion policy should play the main role in stopping global warming, although it has a contribution to make. What I mean here is that we should view the future convergence of our territories in the context of the forthcoming global changes which inevitably will impact more and more on their development.”<sup>37</sup>*

Further Commission thinking on this issue is anticipated to emerge at the end of 2008 when it publishes a report on scenarios of the socio-economic situation of the European regions with a 2020 time-frame, taking into account the dynamics of the global challenges and their implications.

Second, Cohesion policy must be *more focused on maximising its impact on EU competitiveness, growth and jobs*. The Commission has consistently stressed that this does not imply a shift in the solidarity dimension of the policy rationale, which must continue to ensure that the distribution of resources is focused on poorer countries and regions, but that the allocation of resources is made more effective and efficient in achieving policy goals.<sup>38</sup> In driving the competitiveness agenda, for instance, three general policy implications have been drawn out from the Commission’s analytical work under the Fourth Cohesion Report and Fifth Progress Report:<sup>39</sup>

*“Firstly, more focus on European high growth sectors, such as business and financial services or high tech manufacturing industries, which play a significant role in the convergence process within the Union. Secondly, we need policies, especially in the regions lagging behind, which would accompany still ongoing restructuring process, in particular in agriculture. Finally, we have to address the demands of more traditional industrial sectors, with the objective of encouraging the shift towards high productivity and high value added activities.”*

Also in line with the competitiveness drive, Commissioner Hübner has argued for the need for Cohesion policy to put more focus on “public goods”, especially of a “European” nature, through the *“creation of efficient institutional and business environments and through moving away from the simple provision of direct aids.”* Typical areas of investment would include transport and communication infrastructures, information networks, R&D and entrepreneurship. The underlying aim is for Cohesion policy to function more *“as an*

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<sup>37</sup> Danuta Hübner (2008) ‘*Reflections on future of cohesion policy*’ Conference on the future of cohesion policy organised by Slovenian Presidency, Maribor, 7 April 2008

<sup>38</sup> Danuta Hübner (2007) Speech on future of cohesion policy Informal Ministerial Meeting on Territorial Cohesion and Regional Policy, Punta Delgada, 24 November 2007, Azores, Portugal.

<sup>39</sup> Danuta Hübner (2008) ‘*Reflections on future of cohesion policy*’ Conference on the future of cohesion policy organised by Slovenian Presidency, Maribor, 7 April 2008

*instrument of economic regulation which addresses market failures and which acts as a broker and a catalyst for change without substituting for the market.”<sup>40</sup>*

Third, changes are required to the *governance of Cohesion policy* in order to increase the focus on performance, to optimise the roles of different actors and levels, and to improve the coordination of the funds.

A key issue for the Commission is the need to make Cohesion policy more performance-based and results-oriented. In this sense, “*mechanisms which can better demonstrate the results, impact and value-added of policy*” are required.<sup>41</sup> On the other hand, the Commission is conscious that “*that finding consensus around new evaluation criteria and new sets indicators will be a difficult task, not least due to the very diverse nature of regional economies.*”<sup>42</sup> It is also acknowledged that a greater performance orientation would require changes to the Commission’s present role. In particular, this would require “better knowledge” of the regions within the Commission’s services and more emphasis to be given to “*supporting the development of effective regional development strategies and in disseminating good practice and experience.*” However, freeing up the necessary capacity and resources within the Commission to develop this advisory role would require a more fundamental revision in the current distribution of control and audit and control responsibilities. As argued by Commissioner Hübner:<sup>43</sup>

*“We need a stronger involvement and responsibility of the Member States in carrying the control and audit activities, while the Commission should concentrate on certifying and supervising the functioning of national control and audit systems. This would allow the Commission to allocate more resources to policy advice and “performance audit” focusing on the quality of the cohesion investment in terms of economic growth, jobs and competitiveness.”*

A strengthened role for local actors in the planning and implementation of programmes would also be welcomed by the Commission.<sup>44</sup> This could be promoted “*by a more widespread use of instruments such as local grants and governance mechanisms such as local partnerships*”<sup>45</sup>. Greater involvement of citizens is also sought.

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<sup>40</sup> Danuta Hübner (2007) *Genuinely modern and still reinventing itself* speech to the Fourth Cohesion Forum, Brussels, 28 September 2007;

<sup>41</sup> Danuta Hübner (2008) *EU regional policy post-2013: more of the same, or a new beginning?* Speech at European Policy Centre Breakfast Policy Briefing Brussels, 1 July, 2008

<sup>42</sup> Danuta Hübner (2008) ‘*Reflections on future of cohesion policy*’ Conference on the future of cohesion policy organised by Slovenian Presidency, Maribor, 7 April 2008

<sup>43</sup> Danuta Hübner speech at the Conference of CRPM and CoR, What future for regional policies after 2013? Seville, 18 January 2008

<sup>44</sup> Danuta Hübner (2008), *EU regional policy post-2013: more of the same, or a new beginning?* Speech at European Policy Centre Breakfast Policy Briefing Brussels, 1 July, 2008

<sup>45</sup> Danuta Hübner (2008) ‘*Reflections on future of cohesion policy*’ Conference on the future of cohesion policy organised by Slovenian Presidency, Maribor, 7 April 2008

A final issue on the governance theme is the need to re-think the way the Structural Funds are coordinated.<sup>46</sup> Partly due to the increasing importance of the territorial cohesion theme, as well as criticism from the Member States, it is acknowledged by the Commission that improved coordination is needed between the different planning and implementing modes of the ERDF, ESF and Cohesion Fund, as well between Cohesion policy and rural development.

### **3.4 Member State Perspectives**

Turning to the responses of Member States to the Cohesion policy consultation, just over half of the Member States (18/EU27) made a formal submission. Some of those countries that did not respond have sketched out their views in presidency meetings (e.g. Austria, Luxembourg) and other fora. Most countries have welcomed the launch of the debate on the future of Cohesion policy, with some stressing that it must be seen within the context of the broader EU budget review debate. Not all have provided full responses to the consultation, preferring instead to outline general reflections given the present stage of the review process and due to the fact that it is still too early to assess the experience of the 2007-13 period.

#### **3.4.1 Achievements and policy rationale**

In reviewing Member State perspectives on the achievements of Cohesion policy and its underlying principles and rationale, several issues emerge from the consultation responses and reform debate. First, solidarity is widely held up as a fundamental EU value which is being suitably applied through Cohesion policy, and that this expression of solidarity should not be put into question in the future (Austria, Belgium, Bulgaria, Czech Republic, Finland, France, Poland, Portugal, Spain, Slovak Republic). Far from being a simple redistributive mechanism, however, Cohesion policy is regarded as having provided an effective instrument for combining the concept of solidarity with the promotion of competitiveness and sustainable development across the EU (Italy, Latvia, Spain).

Second, there is broad agreement that Cohesion policy has made a positive contribution to the reduction of disparities across EU Member States and regions by promoting economic growth, employment and competitiveness (Bulgaria, Czech Republic, Estonia, Finland, Germany, Italy, Poland, Portugal, Spain, Romania, Slovak Republic) - the UK position is less assertive, recognising a “mixed picture” with evidence of both success and failure regarding economic catch-up and convergence. To the extent that disparities across EU regions remain high, and given the ongoing existence of pressures contributing to regionally imbalanced development, the justification for maintaining an active Cohesion policy at the EU level is widely considered to be strong.

Third, there is a recognition by some countries that the economic benefits of Cohesion policy do not accrue solely to the poorer regions and Member States of the EU, but also spread to the more prosperous parts, contributing to economic growth and employment

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<sup>46</sup> *Ibid*

throughout all Member States (Bulgaria, Italy) and promoting the realisation of their broader economic interests concerning market integration (Italy, Slovak Republic). This view, for instance, strongly underlines the Polish position:

*“The Cohesion Policy is beneficial not only for least developed countries and regions, but for the entire EU. We can easily identify many results of the policy without which the more developed regions and Member States couldn’t fulfil their interests on the Single European Market, such as: the development of the pan-European transport infrastructure and consequently the improvement of the spatial mobility, the movement of workers and goods, the transfer of knowledge and new technologies etc. In this context, the awareness related to the Cohesion Policy role as a “policy for Europe” needs to be stressed and enhanced.”*

Related, several Member States have highlighted various political, economic, social and geo-political benefits arising from the role of Cohesion policy as a European integration promoting tool, such as contributing to the creation and development of the single market (Finland, Germany, Poland, Portugal), the single currency (Portugal), successive waves of enlargement (Portugal) and broader stability (Finland).

Fourth, beyond the contribution to EU-level objectives and goals, Cohesion policy is recognised as having had important positive influences on a range of domestic institutions, processes and policies, including:

- the promotion of integrated, multi-annual programming (Belgium, Finland, Poland, Portugal);
- increased partnership working (Belgium, Finland, Portugal);
- improved strategic and operational management systems and working methods (Belgium, Finland, Poland, Portugal);
- greater networking, cooperation and exchange of best practices (Finland);
- improved financial management and control (Poland, Slovenia);
- increased monitoring and evaluation (Belgium, Slovak Republic, Poland, Portugal);
- promoting area-based approaches to economic development (Slovak Republic); and
- stimulating financial leverage (Belgium, Slovak Republic).

Last, looking to the future there is an increasing recognition of the need for Cohesion policy to be more firmly targeted on European added value - as with the broader EU budget - with support more firmly focused on areas where Community action is necessary (Germany) or more effective than through national action alone (Czech Republic). Notwithstanding the increased salience of this issue in recent years, added value is still considered by some to be insufficiently addressed in the discussions (Austria). A useful first step, as suggested in the German response, could be for Member States and European institutions to agree on a



common definition of European added value. Within the context of the added value debate, similar concerns have arisen regarding the idea of focusing Cohesion policy on European public goods, an idea which is being increasingly deployed in the Cohesion policy reform discussions, not least by the European Commission, but is considered to remain under-developed in conceptual and operational terms (Austria, Belgium, Latvia, Slovak Republic)

### **3.4.2 Objectives and priorities**

#### *(i) Territorial cohesion*

The enshrining of territorial cohesion in the Lisbon Treaty as a core EU objective has been accepted by all Member States. Beyond this general agreement at the level of principles, the implications of this Treaty modification for the substance of Cohesion policy remains disputed and open to debate. The lack of a commonly agreed definition of territorial cohesion and the need for further conceptual operationalisation is an issue of concern for several Member States (Bulgaria, Latvia, Poland, Portugal). In this context, some countries support the development of indicators (Bulgaria, France, Poland) and other tools of territorial analysis (Belgium) in order to contribute to a better understanding of the concept and its potential application. The publication of the Green Paper on Territorial Cohesion and the related consultation exercise are seen as being important in this respect.

Member State views are more divided over the implications of territorial cohesion for the scope of Cohesion policy, financial allocations and the related responsibilities of different territorial levels. The UK response is arguably the most resistant to change, stating that:

*“The addition of territorial cohesion to the treaty does not extend the competence of Cohesion Policy but formalises the work that is already being undertaken; one example of which are actions carried out through the Cooperation Objective”*

In a similar way, the German position makes it clear that spatial development continues to remain an exclusive Member State responsibility and, moreover, that the domestic distribution of powers must be duly respected. Although the German position recognises that the territorial dimension of policy should increase in the future in line with the Treaty changes, this is seen largely as being a matter for each Member State and region to determine for themselves through specific territorial interventions or the spatial targeting of funding according to their particular needs. Partly in line with this perspective, it has been proposed that territorial cohesion could be used as element for reinforcing an integrated approach to regional development programming (Czech Republic, Italy) preferably at the regional level (Germany).

A contrasting view is provided by a group of Member States which seem to support territorial cohesion as a means to provide additional measures and/or greater recognition through Cohesion policy to development challenges associated with specific territorial features that are generally prominent in their respective countries. These include sparsely populated regions (Finland), outermost regions or islands (France, Greece, Spain), rural areas with low population density (Spain), towns bordering other continents (Spain) or mountainous areas (France, Greece). More general types of territorial and/or thematic intervention proposed for targeted support include the balanced development and

integration of urban and rural areas (Czech Republic, Poland), improving the accessibility of rural and peripheral territories (Czech Republic) urban development (Belgium, Czech Republic) and the promotion of an integrated and polycentric approach to city development (Czech Republic). On the other hand, some Member States stress that such territorial specificities should not influence geographical eligibility and funding flows (Germany, Netherlands) or put into question the central and traditional goals of cohesion and solidarity which underpin the policy (Bulgaria, Netherlands).

Where there is more agreement across Member States is on the significant added value provided by territorial cooperation (Finland, France, Germany, Romania, Spain, UK). Several countries have called for strengthened cooperation between regions across all strands of the territorial cooperation Objective (Czech Republic, Poland), through the mainstream programmes (Romania, Spain), and externally by better coordination with the neighbourhood instrument and enlargement policies (France, Luxembourg). In terms of budgetary allocations, Poland goes a step further by calling for an increased share of the budget to be dedicated to this objective. However, several countries also note ongoing concerns regarding the complexity of the rules for implementing territorial cooperation programmes (Austria, Malta, Poland).

(ii) *Spatial eligibility, priority and criteria*

In line with its Treaty basis, there is widespread agreement that economic and social cohesion should remain the primary objective of Cohesion policy with the key focus of support on the less-developed regions and (for some) countries (Finland, Belgium, Czech Republic, Spain, Germany, Bulgaria, Latvia, Netherlands, Romania, Lithuania). While most Member States have yet to present views on the distribution of funding allocations at this stage in the process, Romania has called for increased resources (in terms of support per inhabitant) for the most lagging countries and regions, while Germany has expressed a preference for “extensive concentration” of funding in the new Member States.

Outside the poorest countries/regions, some countries have expressed support for a smaller share of funding to be available for all EU regions in order to promote competitiveness and jobs (Belgium, Greece, Italy, Lithuania) and maintain the visibility of the EU across all Member States (Germany). By contrast, Latvia has noted concern about the consequences of excessive geographical coverage for the sustainability of the policy:

*“Making the policy aims too broad and referable to all member states or regions can make them become too ambitious, unachievable and, hence, there might arise an idea not to finance the policy anymore.”*

With regard to eligibility and financial allocation criteria, several countries are keen to retain the focus on GDP (PPS) per capita (Czech Republic, Latvia, Lithuania), with firm opposition to the use of other territorial/geographical criteria expressed by at least one Member State (Germany). On the other hand, some countries appear to be more open to the idea of exploring the use of additional indicators for allocating expenditure, such as GNI per capita, wage levels, mortality rates, infrastructure-related indicators (Latvia), or other

indicators used by the Commission in its Fourth Cohesion Report, such as sectoral GDP, employment/unemployment rates, R&D expenditure rates etc (Romania).

The issue of transitional arrangements has not featured prominently in the majority of Member State submissions. Two exceptions are Spain, which stresses the need for appropriate phasing-out support for the least developed regions, and Germany, which argues for equality of treatment for all transitional regions irrespective of the country in which they are located.

(iii) *Thematic priorities and new development challenges*

Key questions in the reform debate concern how Cohesion policy should be adapted to take account of EU objectives and broader global developments with potentially increasing and asymmetric impacts on the EU economy in the years ahead.

On the first question, there is widespread support among Member States for continued, if not increased, alignment of Cohesion policy with the major objectives and strategic development priorities of the EU through the Lisbon Strategy (Bulgaria, Finland, Germany, Italy, Lithuania, Poland, Portugal, Spain, UK). However, a number of concerns have been raised.

- The traditional developmental goals of Cohesion policy, targeting the poorest countries and regions, should not be compromised (Lithuania, Czech Republic), particularly given that the Lisbon objectives are not always appropriate for Convergence regions (Latvia, Lithuania).
- There is a need for a clearer separation of goals and responsibilities, avoiding, for instance, unnecessary duplication between the National Reform Programmes and the National Strategic Reference Frameworks (Belgium, UK).
- There should be better integration of the Gothenburg strategy and sustainable development (France), which has been relatively neglected due to the overriding concern with Lisbon goals.
- With regards to the earmarking exercise, the approach to expenditure categorisation is overly prescriptive, with a lack of clarity over what expenditure was covered by the categories, thus requiring a more flexible approach for the future that accommodates national and regional specificities (Lithuania, Malta, Romania, UK).

There is no consensus on the role of Cohesion policy in addressing major challenges such as globalisation, climate change, demographic change and energy security. Several responses have emerged to this question:

- recognition that Cohesion policy needs to take account of these issues (Austria, Estonia, Greece, Italy) or can make a contribution (Malta, Poland, Portugal), particularly where there are regional implications (Belgium, Greece);

- the need for more detailed investigation and analysis on how, and to what extent, Cohesion policy can contribute to addressing these challenges (Bulgaria, France, Greece, Germany, Latvia);
- that Cohesion policy should not lose sight of its core objective of reducing disparities in development as laid down in the Treaty (Belgium, Estonia, Lithuania, Netherlands, UK), particularly given the significant widening of disparities resulting from the last two enlargements (Bulgaria) and the relatively limited budget available to Cohesion policy (Latvia, UK);
- recognition of the already significant effort made by Cohesion policy towards tackling the key development challenges faced by the EU, Member States and regions (Austria, Italy, Germany, UK); and
- that some of the challenges should be primarily addressed through domestic policies (Germany) or by other EU sectoral policies but with better coordination with Cohesion policy (Poland).

### **3.4.3 Management and delivery**

#### *(i) Simplification, proportionality and subsidiarity*

In reviewing their experiences with the management and delivery of Cohesion policy, a large number of Member States have revealed significant dissatisfaction with the complexity and administrative burdens involved and pointed to the need for change, particularly by applying the principles of simplification and proportionality to a more meaningful extent than has been the case to date (Austria, Bulgaria, Estonia, Finland, Germany, Italy, Latvia, Portugal, Romania, Spain, UK). To take one example, the submission of Romania clearly illustrates some of the frustrations involved:

*“Often, the quest for simplification has led to the opposite result, giving rise to complications or simply replacing certain existing rules with other rules just as cumbersome as the previous ones..both the Community acquis and the national legislations have become more and more complex, e.g. state aid rules, public procurement, environmental impact, complex procedures and technical standards and so on pose many difficulties to the projects and often generate major delays in implementation (in the context of the n+2 rule). For the next programming period, the Commission and the Member States have to identify solutions for real simplification, in order to make the policy’s delivery more effective.”*

The most burdensome area of policy administration identified by the Member States concerns the rules on financial management, audit and control. These are viewed as being overly complex (UK), disproportionately costly to implement (Latvia), unfairly applied (e.g. in a retrospective fashion or with different interpretations by different EU institutions) (UK) and are considered to “strangle innovation” in programme management due to the increasing rigour with which the rules are being enforced (Austria). Proposals for reform noted by several countries range from identifying further scope for simplification, while maintaining a high standard of financial control (Estonia, UK) or a wider application of the

principle of proportionality (Austria, Germany, Lithuania, Luxembourg) to a more fundamental review of how the responsibility for management and control is shared between the Community and the national level (Finland).

Considering the allocation of responsibilities between different levels, various Member States acknowledged subsidiarity as the guiding principle to underpin future reforms to the management of Cohesion policy (Austria, Belgium, Czech Republic, France, Germany, Malta, Portugal, Romania). In most cases, however, the principle of subsidiarity is not further elaborated upon or only appears to be interpreted as providing additional flexibility to the Member States, rather than providing for competencies to be assigned to the optimum level for solving the issue at hand. For instance, the German position states that *‘compliance with the principle of subsidiarity must play an important role and any strategies that permit the flexible use of Structural Funds at a Member-State level within a common framework clearly defined by all Members States are welcomed’*, while the submission of Malta notes that *“each Member State should be left to its own decisions with regard to the optimum level of decentralisation of functions/responsibilities. This is part of subsidiarity.”* By contrast, one area identified by Estonia for increasing the role of the Commission concerns its strategic advisory capacity for “advising the regions and in distributing more widely the horizontal knowledge it has, especially in terms of achieving a greater impact of the expenditure from the funds.”

(ii) *Improving performance*

For some Member States, there is a concern with making Cohesion policy more performance and results oriented. Although how this is to be achieved remains underdeveloped, some tentative suggestions included in the submissions include:

- strengthening the focus on outcomes and results (Estonia, Lithuania) by placing increased focus on development targets (Portugal) with appropriate performance conditionalities and incentives (Italy);
- increased selectivity and concentration on effective interventions with maximum impact (Germany, Italy) and which are more cost-efficient (Germany);
- strengthening the additionality principle by encouraging it to be used as an “economic policy instrument” instead of a regulatory obligation (Italy);
- strengthened monitoring and evaluation (Bulgaria, Germany, Poland Portugal), such as greater use of impact assessment (Latvia, Lithuania) and the development of more complex indicators with a longer-term time frame and incorporating both quantitative and qualitative dimensions (Poland); and
- greater exchange of experiences and knowledge between regions on policy impact (Estonia).

(iii) *Policy coordination*

Policy coordination and integration is mentioned by a number of Member States in connection with improved management of Cohesion policy. Within this context, an aspect of the 2006 reforms which has been strongly criticised by a number of Member States concerns the adoption of a mono-fund approach for programmes and the separation of the rural development fund from the Structural Funds. These decisions are viewed as having generated substantial difficulties for policy integration (Italy), to have increased departmental compartmentalisation (Latvia) and to have not delivered any substantive simplification in the practice of programming (Lithuania). Responding to these issues, there is broad agreement of the need to reinforce the integration of Cohesion policy in the future and to minimise the bureaucracy involved in planning. A range of options have been proposed, including:

- abandoning the mono-fund split between ERDF and ESF OPs (Poland);
- reintegrating rural development policy into the Structural Funds (Latvia);
- creating a single, unified fund (Latvia);
- eliminating the Cohesion Fund and integrating its contents within mainstream Structural Funds or clearly differentiated it from the ERDF in terms of eligibility criteria (Germany);
- integrating the globalisation adjustment fund into the ESF (Germany);
- coordinating and integrating the planning and implementation systems of the Structural and Cohesion Funds more closely together, as well as with the FIG and, particularly, the EARDF (Czech Republic, France, Latvia, Lithuania, Italy, Poland, Romania, Slovak Republic).

Another form of reinforced policy coordination and integration called for by a number of countries is between Cohesion policy and other EU policies with a view to enhancing synergies, minimising duplication and, where relevant, to simplify funding application processes for beneficiaries (Belgium, Bulgaria, Finland, Germany, Italy, Malta). Specific policy areas highlighted include education, research, innovation and the environment (Finland, Germany, Italy).

Lastly, better integration of Cohesion policy with national policies is viewed as desirable by some Member States (Bulgaria, France, Italy). With this objective in mind, the most radical suggestion has come from Estonia, which proposes to allow:

*“the best performing regions to use the funds by supporting their already existing regional development plans, instead of setting up parallel ones, relying on the existing implementation mechanisms and rules in those regions while respecting the EU legislation. This option, naturally, has to be based on confidence and an excellent track record of the regions while ensuring that the financial interests of the European Union are secured.”*



## 4. DISCUSSION ISSUES

On the basis of the review of the budget and Cohesion policy consultations in this report, this final section identifies some questions/issues as a starting point for discussion at the EoRPA meeting.

- a) **What role for Cohesion policy in dealing with new challenges?** The outcome of the budget consultation suggests considerable agreement among Member States on the priorities for the European Union - research, innovation and action to deal with the consequences of climate change. However, the role of Cohesion policy is much more contested. On the one hand, there is widespread support for continued, if not increased, alignment of Cohesion policy with the major objectives and strategic development priorities of the EU through the Lisbon Strategy. On the other hand, there is no consensus on the role of Cohesion policy in addressing major challenges such as globalisation, climate change, demographic change and energy security. What is the scope for Cohesion policy to support EU objectives in dealing with new challenges? What are the limits to Cohesion policy intervention?
- b) **How to judge the added value of EU intervention?** The single most important principle for Member States, in their responses to the budget review and the Cohesion policy consultation, is the need for EU policies to demonstrate 'European added value'. There are, however, quite different interpretations. What does added value mean in a Cohesion policy context? How should it be defined? What added value can be determined from national experiences of implementing Cohesion policy?
- c) **How can the management and implementation of Cohesion policy be improved?** For several years, there has been increasing criticism from Member States concerning the problems experienced with management and implementation of Cohesion policy. The rules on financial management, audit and control are clearly of particular concern. In their responses to the consultation, Member States advocated better application of the principles of simplification, proportionality and subsidiarity. What would this mean in practice? What are the priorities for improving the current implementation system? Specifically on the distribution of responsibilities, what is the optimum allocation of responsibilities between the Commission, Member States and regions? Is there scope for operating a more devolved system?
- d) **How might a more performance-based Cohesion policy operate?** Many Member States appear to support a more performance or results-based Cohesion policy. However, the experience hitherto with initiatives such as performance reserve, the decommitment rule and earmarking - which have sought to define the financial or physical outcomes of programmes more precisely - have encountered resistance or practical difficulties. The experiences with monitoring and evaluation have also been mixed. How could Cohesion policy become more performance based? Are there lessons from Member States?